

AIR POUCH

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DISPATCH NO. 2301

FROM:

AMEMBASSY BOMB

TO:

THE DEPARTMENT OF STATE, WASHINGTON

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ARMY-4, NAVY-3, IN-7, LAB-5, OSD-4

SUBJECT: Economics Minister Erhard on Tenth Anniversary of Currency Reform

Reichsminister Erhard

In observing the tenth anniversary of the West German currency reform of June 20, 1948, Economics Minister ERHARD last week addressed the public by radio and through various other media, among them a Big Belt interview and an article written by the Minister himself published in the Frankfurter Allgemeine Zeitung. In the radio speech the emphasis was on reviewing achievements of the past; the Big Belt interview gave more weight to the current situation of the West German economy; while the Frankfurter Allgemeine Zeitung article stressed future tasks. In this despatch the most important statements, particularly those dealing with the present and future, are briefly summarized.

In his review of the past ten years Erhard recalled the distress of the late 1940's and emphasized the undeniable success of the Government's policy based on social market economy principles which was introduced about the time of the currency reform. This policy eliminated rationing and what he called "the mere administration of poverty" and stressed concerted efforts to overcome such poverty, to increase the national product, and to improve the standard of living. Also, he praised the effectiveness of the Central Bank's monetary policy so clearly reflected in the stability of the DM.

In this overall context he once again expressed sincere gratitude for U.S. aid which, he said, made possible, or at least substantially facilitated, the lucky start for a new, better order. He reminded the public of the many tensions with which the German economy--barely tottering on its feet--had been faced and which were overcome, despite gloomy prognostications of pessimists and critics, by adhering strictly to free market principles. Specifically he mentioned the pound sterling devaluation and the Korean and Suez crises.

Turning to the current situation, Erhard emphasized that the Federal Republic is in no danger of an economic decline, stating that production, employment and exports continue to exceed last year's levels and noting with satisfaction that recently industrial orders have picked up and prices have been yielding under increased competition. He predicted a lively

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upswing for the fall, unless further cuts in working time were to disturb the quiet price climate and limit GNP increase. While admitting that certain weak spots existed, he saw no need for an anti-cyclical investment policy of the Government and pointed to the lack of budget funds for increased Government investments and to the unsuitability of deficit spending.

Commenting on the impact on the West German economy of economic trends abroad, Erhard gave more weight to the dwindling purchasing power of countries affected by declining raw materials prices than to U.S. developments as such. He expressed the Government's intention to take measures designed to compensate in part for lessened purchasing power of such countries, indicating that suitable plans are currently being discussed in Bonn and that measures are being considered to stimulate private raw materials imports into the Federal Republic. He pointed to the merits of adequate stockpiling, explaining that the industrial countries, by reducing stockpiles and following a hand-to-mouth policy, had contributed to the difficulties in raw materials countries which, in turn, had affected economic developments in the industrial countries. Responding to British invitations to join the United States in more generous capital investments in developing countries, Erhard promised intensified West German efforts in this field but stated that only measures not endangering the stability of the DM and of the West German price level could be considered.

As regards the future, Erhard stressed that any attempt to rest on past laurels would be fatal—that, in fact, a modern industrialized country like the Federal Republic is not free to decide whether or not it wants to be content with what has been achieved, since a standstill is bound to mean retrogression. Stating that modern technology progressively turns manual work into organized control of machines, he emphasized the need for increased expenditures for education, training, science and research, pointing out that a higher share of such expenditures in the national product will require moderation in other fields. Another major goal for the next decade is seen by Erhard in promoting the acquisition of property by wide circles of the population and in supporting medium-size and small business.

On the international plane, Erhard backed the goals of the Common Market but emphatically advocated in addition the establishment of a Free Trade Area comprising Free Europe as a whole. In this connection, he pointed out that a united Europe cannot become a reality as long as the general economic, fiscal, and monetary policies of the individual countries are governed by exclusively national interests and concepts. ~~End UNCLASSIFIED~~

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Comment: In view of the remarkable post-war recovery of the West German economy, Erhard's personal pride reflected in some of his statements unquestionably has a sound basis, even though his critics have been trying to minimize his accomplishments and will, no doubt, continue to do so. Erhard's optimistic appraisal of the current status of the West German economy is generally shared by most business circles. Certainly the

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Federal Republic has been affected by recessionary trends abroad and foreign orders have declined, although apparently less than in many other countries. Also, there have been some weak spots in the domestic economic scene. As noted in other Embassy reports, coal sales have been sluggish and substantial stockpiles have accumulated at the pithoude. Many steel mills have been working appreciably below capacity. Production in the textile industry has also been slowing down markedly. However, these restrictive factors have been more than offset by expansive forces in other fields.

At least through April, the overall index of industrial production continued to reflect economic growth, though only at a modest pace. In May the index of industrial production for the first time in years averaged slightly below that of the same month a year previous. However, the developments of one single month should not be over-estimated and it would be premature, to say the least, to assume that the Federal Republic is about to enter a stage of recession.

The Minister's stand on economic relations with other countries, in particular his views on European economic integration, is also generally backed in the business community. While some segments of industry are somewhat apprehensive regarding readjustments that will be necessary, business on the whole seems to look forward to expanded markets and is generally confident that it can meet the increased competition.

In conclusion, Minister Richard's expressed belief that the Free Trade Area is necessary in addition to the Common Market in order to avoid the division of Europe was one of several statements bearing on policy issues of special interest to the United States. Others included his support of the idea of counter-cyclical stockpiling of raw materials as a means of helping the developing countries and his recognition that Germany has a role to play in providing funds for such countries.

For the Ambassador

Henry J. Tausch
Minister for Economic Affairs

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